

Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

20 July 1984

SOUTH AFRICAN FINANCIAL SUPPORT TO NAMIBIA

Summary

In our judgment the financial burden of Namibia is not now great enough to compel Pretoria to seek a quick political settlement. The territory's financial drain is increasing, however, and although we do not believe that financial considerations alone will determine South Africa's desire for a settlement, we expect Namibia will become a much larger economic liability. We believe Prime Minister Botha's statements about the heavy financial burden of Namibia are intended to prepare white South Africans for the territory's eventual independence should Pretoria negotiate a settlement to its liking. Botha's remarks are also directed to the outside world to demonstrate Pretoria's sincerity and self-interest in pursuing an internationally acceptable settlement. []

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This typescript memorandum was requested by [], Deputy Director for Southern African Affairs, Bureau of Africa Affairs, Department of State. It was prepared by [] Southern Africa Branch, Office of African and Latin American Analysis. Comments and queries may be directed to the Chief, Southern Africa Branch, []

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Budgetary and Other Financial Support to Namibia

South Africa will provide Namibia with about 460 million rand* in budgetary and other financial support in fiscal year 1985,** according to press reports. This figure includes 318 million rand in direct budgetary subsidies, a 90-million rand loss on the operations in the territory of the parastatal South African Transport Services and an estimated 50 million rand in subsidies on Namibian imports. Pretoria also may provide subsidies through other parastatal operations, but we do not have such data. []

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Interpreting the Botha Claim. Prime Minister Botha, during his recent trip through Europe, claimed that South African support for Namibia in fiscal year 1985 will total 658 million rand. In a judgment we share, South African economic writers have concluded that the Botha figure includes the 460 million rand cited above (out of a total South African government budget of 25 billion rand), and approximately 200 million rand in customs and excise duties collected by South Africa on behalf of Namibia, which is not a cost to the South African taxpayer.*** []

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Security Costs

In addition to Pretoria's direct financing, Prime Minister Botha has stated that the Namibia operations of the South Africa Defense Force (SADF) cost his government between 400 and 500 million rand in fiscal year 1984. We do not have the data to prove or disprove this claim. In our judgment, however, South Africa probably would continue to incur much of this expense for its own defense following Namibian independence. Moreover, there would be start-up costs associated with establishing new defense installations along the South African-Namibian border. The claimed cost of SADF's Namibia operations represents 10-15 percent of South Africa's defense budget. []

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* One rand equals US \$0.68 as of 17 July 1984. []

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** Namibia's 1985 fiscal year is from 1 April 1984 to 31 March 1985. []

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*** Pretoria allocates Namibia a 250-million rand share of Southern African Customs Union duties based on the Namibian imports that come through South Africa. According to press reports, Namibian officials claim that only 50 million rand of this share represents a subsidy. []

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Foreign Exchange Benefits and Other Remittances

In addition to South Africa's political and military interests in Namibia, it has an important economic stake. Pretoria earns foreign exchange from Namibia's exports, at least two-thirds of which flow through South African ports. While the amount fluctuates according to market conditions, Namibia exported over 900 million rand worth of goods in 1981, the last year for which data are available. South Africa keeps most of the foreign exchange from these exports and remits the earnings to Namibia in rand.* ()

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The South African economy also receives an inflow of royalties, profits, dividends, and worker remittances from Namibia. The magnitude also fluctuates, but we estimate that it topped 400 million rand during the late 1970s. ()

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Trends

The size of Pretoria's direct budgetary contribution to Namibia has grown dramatically beginning in fiscal year 1982 (see Table 1). Nearly half of the increase in that year reflected changes in the accounting format for South African assistance to Namibia. Pretoria transferred to Windhoek certain spending obligations for items such as police and defense that previously did not appear in Windhoek's budget. Aside from this accounting change, the South African contribution has grown as domestic Namibian revenues have declined and Windhoek has had to increase its expenditures to support 11 ethnic, second-tier administrations established by Pretoria. Civil service salaries alone account for 60 percent of current expenditures in the Namibian budget. ()

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Namibian internal revenue has slumped primarily because of drought and depressed export prices. Real gross domestic product fell by 2 percent last year. The contribution of mining, fishing and agriculture to gross domestic product dropped from 43 percent in 1982 to 34 percent in 1983, with a corresponding reduction in tax revenues. Taxes on the diamond industry, for example, contributed over half of total domestic revenue four years ago, but a fall in world diamond prices was largely responsible for lowering this share to 14 percent by fiscal year 1984. Prospects for a significant recovery of domestic revenues seem slender because, in our judgment, the markets for diamonds, uranium and lead probably will remain fairly soft over the next couple of years. ()

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* Part of the foreign exchange is used to purchase imports for Namibia, but most Namibian imports originate in South Africa and do not require foreign exchange. ()

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TABLE 1

South Africa's Direct Subsidies for the Namibian Budget

<u>Fiscal Years (ending March)</u>	<u>Amount of Subsidy (Rand Millions)</u>
1981	80.0
1982	254.0
1983	200.0
1984	240.3
1985	313.0

The Debt Problem. The deterioration of Namibian finances has raised Windhoek's outstanding debt from 10.5 million rand in March 1979 to 690 million rand in February 1984.* Interest and capital repayment from the Namibian budget will grow from 74 million rand in fiscal year 1984 to 93 million rand in fiscal year 1985 and may reach 180 million rand by fiscal year 1987, according to press reports. In the absence of a significant economic recovery in Namibia, this growing debt service will necessitate much larger South African subsidies. [REDACTED]

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Moreover, South Africa has unconditionally guaranteed the debt accumulated since 1966 and potentially will be held accountable for at least 690 million rand should an independent government repudiate the debt.** The potential future burden grows larger each day that the issue of Namibian independence remains unresolved. South Africa has continued to guarantee loans to Namibia in the hope that other parties will bear some portion of this repayment burden after Namibian independence. In this way South Africa is keeping down the size of its current budgetary support to Namibia. [REDACTED]

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* We believe that virtually all of this debt has been raised in South Africa and presumably would be repaid in rand, not in foreign exchange. According to data from the Bank for International Settlements (BIS), Namibia has outstanding debt of some \$30 million to banks in BIS member countries. [REDACTED]

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** An International Court of Justice opinion of 1971 states that from the time of the revocation of its mandate in 1966, South Africa has had no authority to grant economic rights or create economic claims in respect to Namibia. An independent Namibia might decide therefore that a repudiation of this debt need not call into question its intent to honor its own debts, and thus need not close off credit. Resolution of the debt issue could become an important point in future negotiations for Namibian independence. [REDACTED]

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SUBJECT: SOUTH AFRICAN FINANCIAL SUPPORT TO NAMIBIA

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